



NATURAL GAS UPDATE

November 2004

Natural Gas Prices (\$/MMBtu)

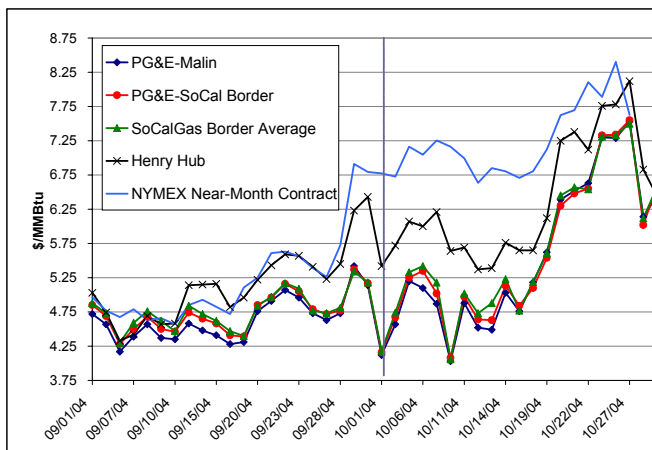
Average Price	October 2004	September 2004	October 2003
PG&E, Malin	5.49	4.62	4.37
PG&E, SoCal Border	5.53	4.72	4.51
SoCalGas Average	5.59	4.76	4.57
Henry Hub, Louisiana	6.35	5.08	4.66

Source: Natural Gas Intelligence

Natural Gas Prices

During October 2004, natural gas spot prices climbed precipitously from \$4.12 and \$4.18 per MMBtu on October 1, to \$7.53 and \$7.50 per MMBtu on October 27, in Northern and Southern California, respectively. Prices did drop in the final two trading days of October to finish the month around \$6.50 per MMBtu in both Northern and Southern California.

During most of October, California enjoyed a rather wide negative basis differential, relative to Henry Hub. That relative discount dissipated as the month progressed as cold weather hit the Western U.S. while temperatures in much of the rest of the country remained moderate, if not warm.

**Figure 1: Daily Natural Gas Spot Prices****Inside the Natural Gas Update:**

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This document was prepared for the California Natural Gas Working Group. The California Natural Gas Working Group is a consortium of California State Government Agencies including:

California Air Resources Board
California Energy Commission
California Public Utilities Commission
California State Lands Commission
Department of Conservation, Division of Oil, Gas, & Geothermal Resources
Department of General Services
Department of Water Resources

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California System Operations and Gas Storage Update

During October 2004, deliveries to customers in the PG&E service territory averaged 2,196 MMcf per day, about 143 MMcf per day less than the October average for 2001 through 2003. Moderate demand during October 2004, allowed PG&E to operate comfortably within its system's capacities, as evidenced by the fact that only once did PG&E's customer deliveries equal as much as 80 percent of its capacity to bring gas into its system (please see Figure 3). If deliveries exceed the utility's receipt capacity, it is forced to use storage to make up the difference. While this was never the case during October 2004, Northern California storage operators did make net storage withdrawals on several occasions during the month. This likely reflects either an attempt to free up some space in the storage facilities, which were basically full throughout the month, for operational flexibility, or it could simply have been done to avoid the escalating spot market prices.

PG&E's receipts of natural gas into its system were also down, relative to 2001 through 2003, averaging 2,247 MMcf per day, 310 MMcf per day less than the October average over the previous three years. One reason that receipts dropped in October 2004 is because all three storage operators in Northern California entered the month with inventories near capacity.

SoCalGas operated closer to average during October 2004. The utility's deliveries to customers averaged 2,247 MMcf per day, only 9 MMcf per day less than the three year average. Like PG&E, SoCalGas operated well within its system's capabilities during the month, with only one day when customer deliveries slightly exceeded 80

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Natural Gas Prices

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peaked on October 27, at \$7.76 per MMBtu. The march upward in prices began in mid-September with the arrival of Hurricane Ivan. The price increases accelerated as it became apparent that a significant amount of gas production remained shut in more than a month after the storm. The Category 3 hurricane caused significant damage to natural gas and oil production infrastructure in the Gulf of Mexico. From September 11, 2004 to November 1, 2004, over 110 Bcf of natural gas production has been lost owing to hurricane-related shut-ins. This total represents about 2.5 percent of the annual natural gas production from the Gulf of Mexico, and that total is expected to increase as 905 MMcf per day, or 7.4 percent of production capacity in the Gulf, remains shut in.

On October 21, 2004, the National Oceanic and Atmospheric Administration provided additional support for higher prices, particularly NYMEX futures prices, when it released its *U.S.*

Winter Outlook for December 2004 through February 2005.

The outlook calls for cooler than normal temperatures in the Southeast and Atlantic states and drier than normal conditions in the Pacific Northwest.

Natural gas prices also moved higher in response to the rapidly rising oil market. On October 26, 2004, NYMEX near-month crude oil contracts reached an all-time high of \$55.17 per barrel for the near-month contract. This is equivalent to about an \$9.59 per MMBtu. Destabilizing influences to the oil market have come from all over the globe, from on-going sabotage and unrest in Iraq, to political instability and violence in the Nigerian Delta, to hurricane damage from Ivan, which to date, has caused nearly 27 million barrels of oil production to be shut in, as of November 1, 2004. Like gas, ongoing shut-ins continue to slow production in the Gulf. About 224 thousand barrels remain shut in, which is about 13 percent of Gulf of Mexico oil production and 1 percent of daily U.S. consumption. ■

California System Operations and Gas Storage Update

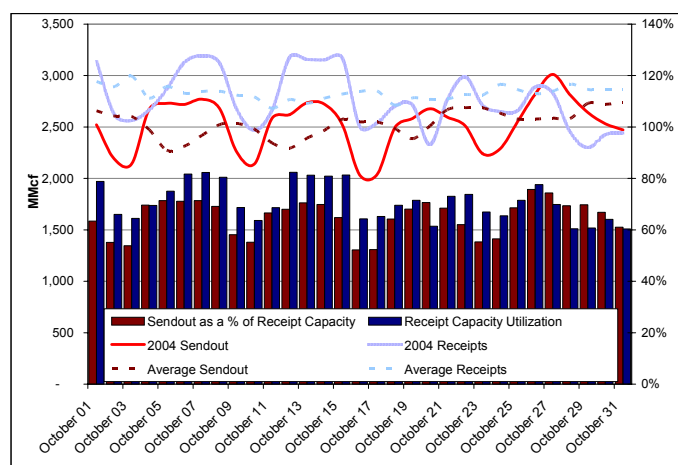


Figure 2. SoCalGas' Natural Gas Receipts and Deliveries, October 2004

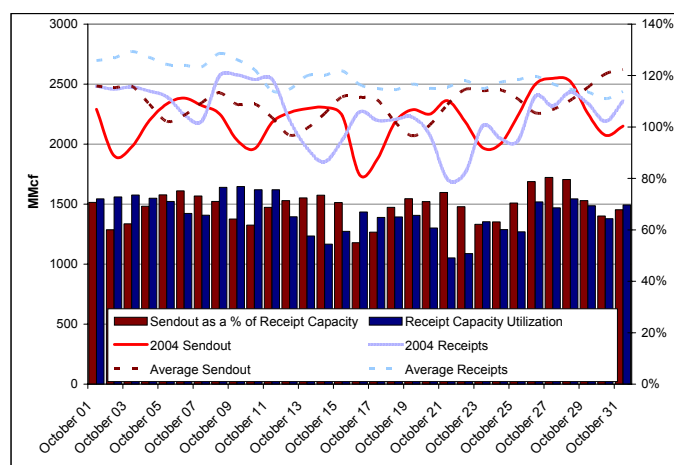


Figure 3. PG&E's Natural Gas Receipts and Deliveries, October 2004

System Operations

(Continued from page 1)

percent of SoCalGas' receipt capacity (please see Figure 2). SoCalGas also pulled gas from storage near the end of the month as its inventories neared capacity. Some slack capacity in storage allows the utilities more flexibility to manage pipeline pressure in the event high line packs.

Natural gas receipts into the SoCalGas system averaged 2,763 MMcf per day during October 2004, 66 MMcf per day below the October average during 2001 through 2003.

California's natural gas storage inventories increased by almost 10 Bcf during October 2004, to around 251 Bcf on November 1, 2004 (please see Figure 4). This is the highest November 1 inventory ever in California and is just slightly below the statewide natural gas storage capacity of around 256 Bcf. ■

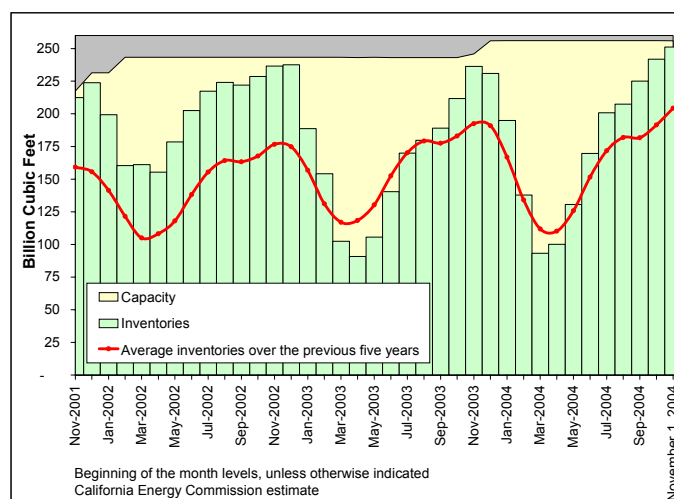


Figure 4. Monthly California Storage Inventories

U.S. Natural Gas Storage

According to the Department of Energy, Energy Information Administration, the level working gas in storage reached 3,327 on November 5, 2004. This is the largest nationwide storage inventory ever reached. By comparison, at the same time last year, inventories were 3,187 Bcf, and the five-year average is 3,061 Bcf. ■

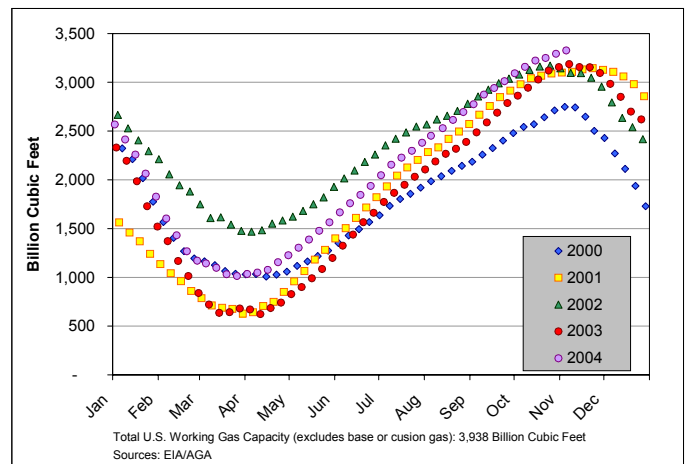


Figure 5. U.S. Natural Gas Storage Levels

California Gas Drilling and Production

During July 2004, natural gas production in California decreased, relative to the previous month, about 45 MMcf per day. The decline brought statewide production to about 880 MMcf per day. Output dropped in nearly every district in the state, with the exception of Districts 5 and 6, which registered modest gains in production during July 2004.

During October 2004, 13 natural gas drilling permits were issued for District 6, bringing the year-to-date total to 118 permits issued, slightly higher than total permits issued through September during 2000, 2002, and 2003. District 6 produces the largest volume of non-associated natural gas in California. The district encompasses all of Northern California north of Santa Cruz, Santa Clara, Stanislaus, Tuolumne, and Mono counties, as well as a small portion of Stanislaus County. ■

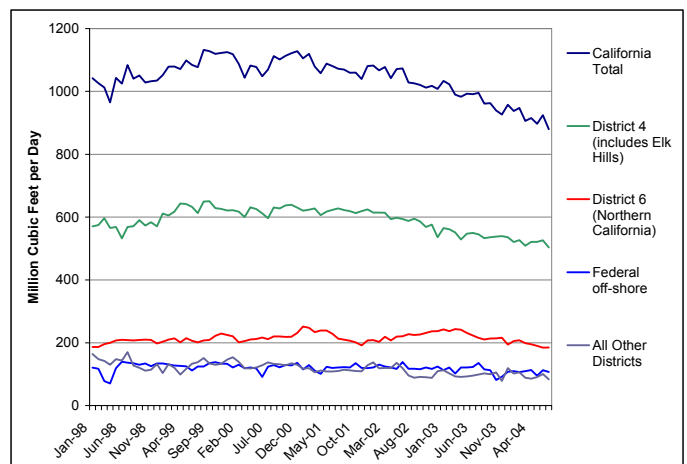


Figure 6. California Natural Gas Production, by District

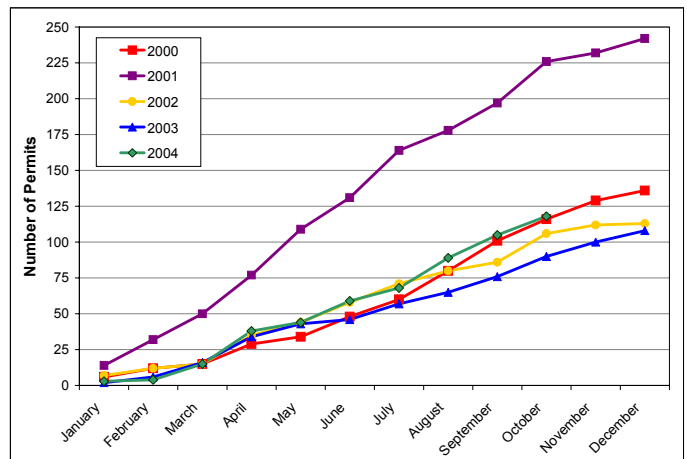


Figure 7. Drilling Permits Issued for District 6 (Northern California)

Regulatory Summary

California Public Utilities Commission Cases

Proceeding Number & Title	Description	Status
I0211040 Investigation on Natural Gas Prices from December 2000 to May 2001	Investigates gas market activities of California utilities and their impact on gas prices at the California border from March 2000 through May 2001.	Additional Phase 1A hearing held Oct 25th to allow additional evidence. Supplemental briefs and reply briefs to be filed early November 2004. Administrative Law Judge (ALJ) Proposed Decision pending. Sempra affiliate has challenged in court CPUC authority to compel discovery.
A.02-12-027/A.02-12-028 SoCalGas and SDG&E cost of service and PBR proposal	Establishes revenue requirement for SoCalGas and SDG&E, may establish PBR structure for SoCalGas and SDG&E	ALJ proposed decision and alternate decision mailed September 28, 2004 in Phase 1 (cost of service). ALJ PD in Phase 2 (PBR) pending.
I0404024 Order Instituting Investigation into the proposal of Sound Energy Solutions to construct and operate a liquefied natural gas terminal at the Port of Long Beach	Orders Sound Energy Solutions (SES) to file an application for a certificate of public convenience and necessity if it intends to pursue construction of the project, and promotes public safety and California's environmental welfare, consistent with state and federal law.	Opening testimony is due December 1, 2004, reply testimony is due December 20th, and hearings are scheduled for January 2005. CPUC decision issued October 28th denies SES' application for rehearing of OII.
A.04-01-034 SoCalGas "Native Gas" Production and Revenue Sharing	SoCalGas requests authority to produce natural gas in vicinity of storage fields, and share revenues from sales with customers	Partial settlement of issues reached with some parties. Case is submitted. ALJ PD pending. Status report issued Oct 29th by CIPA, WSPA, SoCalGas.
A0403021 2005 Gas Accord II	PG&E's proposal for cost of service and rates for gas transmission and storage services and backbone level service and rates for 2005, as required by Commission decision D03-12-061 (Gas Accord II).	PG&E reached an all-party settlement in the proceeding that would settle backbone transmission and storage rates and market structure for 2005-2007. PG&E filed the settlement on August 27, 2004. If adopted by the Commission, the settlement would eliminate the need for a 2006 Gas Accord filing.
R0401025 Policies and Rules to Ensure Reliable, Long-term Supplies of Natural Gas to California	Considers and rules on California natural gas utilities' proposals to ensuring reliable, long-term supplies of natural gas to California, including interstate pipelines, LNG, storage, and in-state production.	Phase 1 Decision adopted on September 2, 2004. ALJs may issue ruling on need for hearings of certain issues. Joint CPUC/CEC workshop on natural gas quality issues to be held in early December. CPUC staff working with utilities on interstate capacity portfolio. TURN & RACE file application for rehearing, RACE files additional application for rehearing of Phase 1 decision Oct. 12th.
PG&E BCAP A.04-07-044	Allocates PG&E's gas distribution revenue requirement to customer classes and sets rate design	ORA testimony due December 10, other parties' testimony due January 11, 2005.
SoCalGas A.04-08-018 to establish regulatory authority over the access for natural gas provided by California gas producers	Establish the terms and conditions under which natural gas produced by California gas producers will be granted access to the SoCalGas operating system	Application filed August 16, 2004. Protests filed September 20, 2004. Status report issued Oct 29th by CIPA, WSPA, SoCalGas.
A.04-09-009 Southwest purchase of Avista's natural gas properties	Requests authority for Southwest Gas to purchase Avista's California natural gas properties and take over service to Avista's customers	Application filed September 2, 2004. One protest filed by ORA on Oct. 12th.